

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

United Service Organizations, Inc.

December 31, 2020 and 2019

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities and Change In Net Assets	6
Consolidated Statements of Functional Expenses	8
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	11

GRANT THORNTON LLP

1000 Wilson Blvd., Suite 1400
Arlington, VA 22209

D +1 703 847 7500

F +1 703 848 9580

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Governors
United Service Organizations, Inc.

We have audited the accompanying consolidated financial statements of United Service Organizations, Inc. ("USO"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Service Organizations, Inc. as of December 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Arlington, Virginia
April 30, 2021

United Service Organizations, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019
(in thousands of dollars)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 27,968	\$ 25,941
Contributions receivable, net	22,479	19,831
Grants receivable	6,240	6,036
Other receivables	491	828
Prepaid expenses and other assets	3,268	2,278
Inventory	3,532	2,920
Operating investments	26,079	24,850
Endowment investments	147,786	132,339
Beneficial interest in assets held by others	277	-
Fixed assets, net	17,413	15,555
Total assets	\$ 255,533	\$ 230,578
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 11,900	\$ 10,351
Loans payable	581	-
Deferred rent	3,100	3,371
Total liabilities	15,581	13,722
NET ASSETS		
Without donor restrictions	151,153	136,095
With donor restrictions	88,799	80,761
Total net assets	239,952	216,856
Total liabilities and net assets	\$ 255,533	\$ 230,578

The accompanying notes are an integral part of these consolidated financial statements.

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2020
(In thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions:			
Corporate, foundation and individual giving	\$ 25,319	\$ 24,137	\$ 49,456
Direct response	69,463	25	69,488
United way and CFC	418	-	418
Contributed materials, facilities and services	67,696	9	67,705
Grants	20,204	-	20,204
USO center revenue	383	-	383
Investment return, net	543	114	657
Other income	346	-	346
Net assets released from restrictions	24,255	(24,255)	-
	<u>208,627</u>	<u>30</u>	<u>208,657</u>
Total operating revenue, gains, and other support			
Program services expense			
USO centers	60,313	-	60,313
Transition programs	4,194	-	4,194
Military families & expeditionary programs	8,724	-	8,724
Contributed materials, facilities and services	68,010	-	68,010
Entertainment	3,109	-	3,109
Communications and public awareness outreach	16,900	-	16,900
	<u>161,250</u>	<u>-</u>	<u>161,250</u>
Total program services expense			
Supporting services expense			
Fundraising	29,942	-	29,942
Management and general	14,969	-	14,969
Contributed materials, facilities and services	117	-	117
	<u>45,028</u>	<u>-</u>	<u>45,028</u>
Total supporting services expense			
Total operating expenses	<u>206,278</u>	<u>-</u>	<u>206,278</u>
Operating revenues in excess of operating expense, before nonoperating	2,349	30	2,379
Nonoperating:			
Contributions:			
Excess of assets acquired over liabilities assumed in the acquisition of other charitable organizations	5,224	343	5,567
Endowment investment return, net	7,485	7,665	15,150
	<u>12,709</u>	<u>8,008</u>	<u>20,717</u>
Total nonoperating activity			
CHANGE IN NET ASSETS	15,058	8,038	23,096
Net assets, beginning of year	<u>136,095</u>	<u>80,761</u>	<u>216,856</u>
Net assets, end of year	<u>\$ 151,153</u>	<u>\$ 88,799</u>	<u>\$ 239,952</u>

The accompanying notes are an integral part of these consolidated financial statements.

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2019
(In thousands of dollars)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support			
Contributions:			
Corporate, foundation and individual giving	\$ 25,516	\$ 12,598	\$ 38,114
Direct response	64,473	-	64,473
United way and CFC	436	-	436
Contributed materials, facilities and services	98,448	557	99,005
Grants	20,712	-	20,712
USO center revenue	1,013	-	1,013
Investment return, net	980	101	1,081
Other income	103	-	103
Net assets released from restrictions	17,137	(17,137)	-
	<hr/>	<hr/>	<hr/>
Total operating revenue, gains, and other support	228,818	(3,881)	224,937
Program services expense			
USO centers	53,822	-	53,822
Transition programs	4,631	-	4,631
Military families & expeditionary programs	8,990	-	8,990
Contributed materials, facilities and services	98,526	-	98,526
Entertainment	3,983	-	3,983
Communications and public awareness outreach	15,049	-	15,049
	<hr/>	<hr/>	<hr/>
Total program services expense	185,001	-	185,001
Supporting services expense			
Fundraising	26,319	-	26,319
Management and general	13,966	-	13,966
Contributed materials, facilities and services	360	-	360
	<hr/>	<hr/>	<hr/>
Total supporting services expense	40,645	-	40,645
Total operating expenses	<hr/>	<hr/>	<hr/>
	225,646	-	225,646
Operating revenues in excess of operating expense, before nonoperating	3,172	(3,881)	(709)
Nonoperating:			
Contributions:			
Excess of assets acquired over liabilities assumed in the acquisition of other charitable organizations	11,955	3,910	15,865
Endowment investment return, net	8,398	9,986	18,384
	<hr/>	<hr/>	<hr/>
Total nonoperating activity	20,353	13,896	34,249
CHANGE IN NET ASSETS	23,525	10,015	33,540
Net assets, beginning of year	<hr/>	<hr/>	<hr/>
	112,570	70,746	183,316
Net assets, end of year	<hr/>	<hr/>	<hr/>
	\$ 136,095	\$ 80,761	\$ 216,856

The accompanying notes are an integral part of these consolidated financial statements.

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2020
(In thousands of dollars)

	Program Services					Total	Supporting Services		Total Operating Expenses
	USO Centers	Transition Programs	Military Families & Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach		Fund-Raising	Management and General	
Salaries	\$ 29,978	\$ 3,068	\$ 946	\$ 1,145	\$ 1,604	\$ 36,741	\$ 7,483	\$ 5,625	\$ 49,849
Payroll taxes	2,314	217	69	78	105	2,783	501	364	3,648
Retirement plan	2,030	205	75	74	114	2,498	516	394	3,408
Employee benefits	3,039	165	75	106	137	3,522	528	585	4,635
Total salaries and related expenses	37,361	3,655	1,165	1,403	1,960	45,544	9,028	6,968	61,540
Program supplies and services	21,404	234	7,166	12,459	-	41,263	-	1	41,264
Office expenses	2,525	37	-	-	2	2,564	165	355	3,084
Information technology	3,686	154	57	41	57	3,995	347	527	4,869
Printing and production	116	41	1	357	5,488	6,003	8,429	2,646	17,078
Marketing and promotion	-	-	-	127	22,105	22,232	4,790	-	27,022
Awards and grants	720	-	-	-	-	720	-	-	720
Professional fees	766	2	13	652	2,156	3,589	2,376	1,767	7,732
Subscriptions, dues, and staff training	265	5	-	24	36	330	89	154	573
Travel	1,054	18	2	208	8	1,290	121	122	1,533
General insurance	300	3	14	26	33	376	76	70	522
Occupancy	23,223	11	210	70	144	23,658	391	393	24,442
Rental and maintenance of equipment	887	-	1	1	2	891	6	56	953
Postage and shipping	507	5	919	2	3,374	4,807	1,345	1,489	7,641
Meetings, conferences and events	13	-	-	8	31	52	671	31	754
Depreciation and amortization	3,478	29	39	26	70	3,642	201	170	4,013
Other expenses	244	-	-	50	-	294	1,957	287	2,538
Functional expenses, gross	96,549	4,194	9,587	15,454	35,466	161,250	29,992	15,036	206,278
Note: In-kind expenses included in expenses listed above	36,236	-	863	12,345	18,566	68,010	50	67	68,127
Functional expenses, net	\$ 60,313	\$ 4,194	\$ 8,724	\$ 3,109	\$ 16,900	\$ 93,240	\$ 29,942	\$ 14,969	\$ 138,151

The accompanying notes are an integral part of these consolidated financial statements.

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2019
(In thousands of dollars)

	Program Services						Supporting Services		Total Operating Expenses
	USO Centers	Transition Programs	Military Families & Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach	Total	Fund-raising	Management and General	
Salaries	\$ 24,381	\$ 2,713	\$ 1,262	\$ 974	\$ 1,496	\$ 30,826	\$ 5,043	\$ 5,368	\$ 41,237
Payroll taxes	1,954	212	90	69	115	2,440	356	343	3,139
Retirement plan	1,631	190	95	70	115	2,101	350	391	2,842
Employee benefits	2,691	167	97	107	114	3,176	398	451	4,025
Total salaries and related expenses	30,657	3,282	1,544	1,220	1,840	38,543	6,147	6,553	51,243
Program supplies and services	18,666	772	7,158	25,432	-	52,028	-	-	52,028
Office expenses	1,982	39	-	2	1	2,024	80	125	2,229
Information technology	3,529	154	53	25	53	3,814	141	408	4,363
Printing and production	87	33	-	376	4,341	4,837	8,502	2,140	15,479
Marketing and promotion	14	-	-	75	47,852	47,941	3,013	5	50,959
Awards and grants	505	-	-	-	-	505	-	-	505
Professional fees	1,395	2	14	604	1,514	3,529	3,387	1,776	8,692
Subscriptions, dues, and staff training	210	1	-	17	19	247	114	140	501
Travel	1,591	78	91	1,105	56	2,921	390	217	3,528
General insurance	260	3	17	26	29	335	61	66	462
Occupancy	17,670	189	251	78	147	18,335	332	404	19,071
Rental and maintenance of equipment	597	8	1	1	2	609	8	38	655
Postage and shipping	452	6	1,272	5	4,283	6,018	2,595	1,763	10,376
Meetings, conferences and events	112	1	1	1	35	150	1,217	105	1,472
Depreciation and amortization	2,692	78	44	39	73	2,926	167	209	3,302
Other expenses	187	-	14	38	-	239	416	126	781
Functional expenses, gross	80,606	4,646	10,460	29,044	60,245	185,001	26,570	14,075	225,646
Note: In-kind expenses included in expenses listed above	26,784	15	1,470	25,061	45,196	98,526	251	109	98,886
Functional expenses, net	\$ 53,822	\$ 4,631	\$ 8,990	\$ 3,983	\$ 15,049	\$ 86,475	\$ 26,319	\$ 13,966	\$ 126,760

The accompanying notes are an integral part of these consolidated financial statements.

United Service Organizations, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019
(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 23,096	\$ 33,540
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,013	3,302
Contributed investments	(732)	(4,242)
Excess of assets acquired over liabilities assumed in the donation of other charitable organizations	(5,379)	(10,063)
Change in discount and allowance on contributions and other receivable, net	512	(413)
Change in allowance for inventory obsolescence	(7)	(18)
Realized/unrealized gain on investments	(13,170)	(15,769)
Contributions restricted for endowment	(100)	(100)
Revenue from contributed inventory, equipment and vehicles	(354)	(1,818)
Change in value of beneficial interest in assets held by others	(40)	-
Contributed inventory used	2,018	519
Loss on disposal of fixed assets	14	174
Changes in assets and liabilities		
Contributions receivable	(3,142)	5,318
Grants and other receivables	132	2,448
Prepaid expenses and other assets	(991)	1,347
Inventory	(1,626)	863
Accounts payable and accrued expenses	1,548	(2,852)
Deferred rent	(271)	213
Net cash provided by operating activities	<u>5,521</u>	<u>12,449</u>
Cash flows from financing activities:		
Contributions restricted for endowment	100	120
Net cash provided by financing activities	<u>100</u>	<u>120</u>
Cash flows from investing activities:		
Cash received in acquisition of other charitable organizations	4,451	5,403
Purchase of fixed assets	(5,272)	(2,509)
Purchase of investments	(219,851)	(212,621)
Sales of investments	217,078	206,513
Net cash used in investing activities	<u>(3,594)</u>	<u>(3,214)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,027	9,355
Cash and cash equivalents, beginning of year	<u>25,941</u>	<u>16,586</u>
Cash and cash equivalents, end of year	<u>\$ 27,968</u>	<u>\$ 25,941</u>

The accompanying notes are an integral part of these consolidated financial statements.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019
(in thousands of dollars)

NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

United Service Organizations, Inc. (USO) is a not-for-profit, congressionally chartered, private organization devoted exclusively to strengthening America's military service members by keeping them connected to family, home and country, throughout their service to the nation. The USO relies on the generosity of individuals, organizations and corporations to support its activities. Since 1941, the USO has been the nation's leading organization to serve those in the U.S. military, and their families, throughout their time in uniform. From the moment they join, through their assignments and deployments, and as they transition back to their communities, the USO is always by their side.

Today's USO continuously adapts to the needs of those in uniform and their families, so they can focus on their very important mission. We operate USO centers at or near military installations across the United States and throughout the world, including in combat zones, and even un-staffed USO service sites in places too dangerous for anyone but combat troops to occupy.

USO airport centers throughout the country offer around-the clock hospitality for traveling service members and their families. Our trademark USO tours bring America and its celebrities to service members who are assigned far from home, to entertain them and convey the support of the nation. Our many specialized programs offer a continuum of support to service members throughout their journey of service, from the first time they don the uniform until the last time they take it off.

Principles of Consolidation

The accompanying consolidated financial statements reflect the accounts of USO and the USO Foundation (Foundation). The Foundation was incorporated as a supporting organization on March 22, 2007 to carry out and support the general charitable purposes of the USO. All intercompany accounts and transactions have been eliminated.

Chartered stateside USO affiliates are financially autonomous of the USO and are, therefore, excluded from the USO's consolidated financial statements. The USO oversees the operations and activities for the chartered centers to facilitate strategic alignment, deliver on the overarching mission-wide strategic objectives, and to ensure coverage for all geographic service areas; however, the chartered centers are each governed by separate boards that are independent of the USO Board of Governors. During the year ended December 31, 2020, USO acquired four chartered centers. During the year ended December 31, 2019, USO acquired eight chartered centers. The intent of these acquisitions is to create a unified USO (Note M).

Foreign Currency

The USO operates centers at military installations around the world. The United States dollar is the functional currency of the USO; however, the USO maintains financial assets and liabilities in foreign currencies to meet the local obligations of the centers. The financial assets and liabilities in foreign currencies are translated using exchange rates in effect at the end of the period and revenue and costs are translated using weighted average exchange rates for the period.

Cash and Cash Equivalents

The USO considers all cash and highly liquid financial investments with original maturities of three months or less which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. Allowances for uncollectible contributions are determined based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible.

Unconditional promises to give product inventory that are expected to be received within three months or less are recorded at their net realizable value which is the estimated fair value based on a minimal timeframe between promise to give and receipt of goods. Inventory receivables are recorded at wholesale value. Wholesale value of the items donated is determined based on management's best estimate using information provided by donors and other third parties. The USO does not accept or record inventory receivables that are expected to be collected in greater than one year. Management considers all promises to give of product inventory to be fully collectible, therefore no allowance is recorded. Contributions receivable included \$65 and \$471 of unconditional promises to give product inventory as of December 31, 2020 and 2019, respectively.

Other Receivables

The carrying value of the USO's other receivables represents their estimated net realizable value. The USO determines the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. In addition, the USO records specific allowances based on facts that become known after revenue is earned. Other receivables are written off when deemed uncollectible. Management considers other receivables to be fully collectible, therefore no allowance is recorded.

Inventory

Inventories are stated at the lower of cost or market determined on a first-in, first-out method.

Contributed product inventory is recorded at the fair value on the date received. Management periodically reviews inventory levels for slow-moving or obsolete inventory and adjusts the fair value, if necessary.

Beneficial Interest in Assets Held by Community Foundation

During 2020, as part of merger agreements with two chartered centers, the USO recognized the fair value of a beneficial interest in assets held by two community foundations. These community foundations were established by the chartered centers to hold endowments and named the associated chartered center as beneficiary upon establishment of the fund. The community foundations were granted variance power allowing the community foundation to modify any condition or restriction on its distributions for any specific charitable purpose or to any specified organization if, in the sole judgment of the community foundation's board of directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The endowments are held and invested by the community foundation for the USO's benefit and the associated beneficial interest in the assets of the foundations are reported at fair value in the consolidated statements of financial position, with distributions and changes in fair value recognized in the consolidated statements of activities.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Investments

The USO records investment purchases at cost, or if donated, at fair value on that date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return/(loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Fair Value Measurements

The USO reports certain assets and liabilities at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into the follow three levels, based on the reliability of inputs:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;
- Level 2 - Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 - Significant unobservable inputs for the asset or liability that reflect the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement; however, the determination of what constitutes observable requires significant judgment by USO. The USO considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to USO's assessment of the quality, risk, or liquidity profile of the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

Investments with values that are based on quoted market prices in active markets classified within Level 1 include active listed equities, mutual funds, actively traded corporate and international bonds, and government obligations. Money market funds held as investments are also classified within Level 1 as their carrying value approximates fair value due to the short maturity of these instruments.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Investments that trade in markets that are not considered to be active, but that are valued based on quoted market prices or if quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models are classified within Level 2. The most significant inputs to the discounted cash flow model are the coupon, yield and expected maturity date. The fair values of corporate bonds, international bonds or government obligations that are estimated using pricing models or matrix pricing based on observable prices of the investments that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. As of December 31, 2020 and 2019, the USO did not hold any corporate bonds, international bonds or government obligations not traded in active markets.

The fair values of beneficial interests in charitable and perpetual trusts are determined by the USO using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. The fair value of beneficial interest in assets held by the community foundation is based on the fair value of fund investments as reported by the community foundation. These are considered to be Level 3 measurements.

The USO uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair value of certain hedge funds, private equity funds, funds of funds and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy. The alternative investments consist of investments invested primarily in managed futures, foreign exchange and private investment companies to achieve diversification to provide for increased return and/or reduced volatility. The fair values of these investments are determined using the NAV per share as a practical expedient.

Fixed Assets

Furniture, fixtures, equipment, and other capitalized assets over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the useful life of the improvement or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions. The Board of Governors has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Measure of Operations

The USO's operating revenues in excess of operating expenses include all operating revenues and expenses that are an integral part of its programs and supporting activities and net assets released from donor restrictions to support operating expenditures. The USO has presented net investment return on endowment investments and contribution revenue related to the excess of assets acquired over liabilities assumed in the acquisition of other charitable organizations as nonoperating in the consolidated statements of activities.

Revenue Recognition

Contributions

The USO recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met in accordance with Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Consequently, at December 31, 2020, contributions excluding those associated with a federal grant award approximating \$985 have not been recognized in the accompanying consolidated statement of activities because the condition(s) on which they depend has not yet been met. Of the total conditional contributions, \$185 depend on raising additional contributions before December 31, 2021 that will be matched dollar-for-dollar. In addition, \$800 of contributions depend on the achievement of certain milestones.

Grant Revenue

The USO recognizes government and private contracts and grants as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, contract and grant agreements contain a right of return or right of release from the respective obligation provision on the part of the grantor and the USO has limited discretion over how funds transferred should be spent. As such, consistent with ASU 2018-08, the USO recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome.

Amounts reported as grants receivable, within the accompanying consolidated statements of financial position, represent expenses incurred in advance of the receipt of funds. Funds received in advance of conditions being met are reported as deferred revenue within the accompanying consolidated statements of financial position.

Billed and unbilled receivables of grants are expected to be collected within one year and are recorded at net realizable value as grant receivables in the consolidated statements of financial position. Federal grant awards are subject to independent audit under the Office of Management and Budget Uniform Guidance and review by grantor agencies. Such review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the USO's management believes that costs ultimately disallowed, if any, would not materially affect the consolidated financial position of the USO.

At December 31, 2020, the USO has a conditional contribution associated with a federal grant award totaling \$13,760 which will be recognized as revenue as conditions are met.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Contributed Materials and Facilities

Donated facilities, equipment use, materials and supplies received from the United States Government and other donors are reflected in the accompanying consolidated financial statements as support to the USO at the estimated fair value when received or when an unconditional pledge to contribute has been made.

Contributed Services

The USO recognizes contributions of services received if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

The USO receives contributions of services from celebrities in order to carry out its program of providing free celebrity entertainment tours for military personnel around the world. The USO also receives contributions of media airtime to promote its public service announcements. These contributions of services are reflected in the accompanying consolidated financial statements as support to the USO at the estimated fair value when received. As these contributions of services are expended in the year that the services are provided, a corresponding expense equal to the estimated fair market value of the services provided is recognized in the accompanying consolidated financial statements.

In addition, USO receives services from a large number of volunteers who give significant amounts of time to the USO's programs. No amounts have been reflected for these types of donated services, as they do not meet the criteria outlined above.

USO Center Revenue

USO Center Revenue represents amounts collected for cultural tours, canteen operations, gift shops and a variety of other activities at USO centers located at military installations around the world. Revenue is recognized when earned. Amounts received in advance for tours and other activities are recorded as deferred revenue and included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Financial Instruments and Credit Risk

Financial instruments that potentially subject the USO to credit risk consist primarily of cash, accounts receivable, and investments. The USO manages deposit concentration risk by placing cash, money market accounts, and certificates of deposits with financial institutions believed to be creditworthy. Additionally, various cash accounts are maintained at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may exceed the FDIC insurable limits at times throughout the year due to anticipated large expenses under various projects. As of December 31, 2020, balances held in accounts in excess of the FDIC insurable limit were \$25,960. Amounts in foreign bank accounts total \$485 and \$360 at December 31, 2020 and 2019, respectively. The USO has not experienced any losses in these accounts and management does not consider this to be a significant credit risk. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and donors supportive of our mission.

Investments are made by diversified investment managers whose performance is monitored by the Foundation Board and the finance committee of the Board of Governors. The USO's investment policies also stipulate appropriate diversification of investment balances.

Income Taxes

The USO and Foundation are organized as District of Columbia nonprofit corporations, and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Each organization is annually required to file a Return of Organizations Exempt from Income Tax (Form 990) with the IRS. In addition, the organizations are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The USO files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

Accounting principles generally accepted in the United States of America (U.S. GAAP) requires that an income tax position be recognized or derecognized based on a "more likely than not" threshold. Each organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. USO has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statements of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statements of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. The USO believes adoption of this standard will have a significant impact on the consolidated statement of financial position and is evaluating the impact this ASU will have on the consolidated statements of activities and cash flows.

NOTE B - LIQUIDITY AND AVAILABILITY

The USO regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The USO has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the USO considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support these activities to be general expenditures.

The USO receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs.

As of December 31, the following financial assets could readily be made available within one year of the consolidated balance sheet date to meet general expenditures:

	2020	2019
Cash and cash equivalents	\$ 27,968	\$ 25,941
Contribution, grant and other receivables	24,976	21,457
Operating investments	25,253	24,850
Distributions from beneficial interests in assets held by others	8	-
Less: Restricted trusts included in operating investments	-	(737)
Financial assets available to meet general expenditures over the next 12 months	\$ 78,205	\$ 71,511

In addition to the above, the USO's Board of Governors has designated a portion of its unrestricted resources for an endowment. As of December 31, 2020 and 2019, the board-designated value is \$81,841 and \$73,559, respectively. These funds are invested for long-term appreciation but remain available and may be spent at the discretion of the Board of Governors.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

NOTE C - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consist of the following unconditional promises to give as of December 31:

	2020	2019
	<u> </u>	<u> </u>
Less than one year	\$ 18,244	\$ 14,593
One to five years	4,839	5,282
More than five years	688	737
	<u>23,771</u>	<u>20,612</u>
Less:		
Discount to net present value at rates ranging from 1% to 4%	(544)	(561)
Allowance for uncollectible contributions receivable	<u>(748)</u>	<u>(220)</u>
	<u>\$ 22,479</u>	<u>\$ 19,831</u>

NOTE D - INVESTMENTS

At December 31, investments consist of the following:

	2020	2019
	<u> </u>	<u> </u>
Corporate and commercial obligations	\$ 38,197	\$ 25,060
U.S. Treasury securities and other government obligations	22,409	34,527
Corporate equity securities	22,402	35,650
Mutual funds	70,503	45,474
Money market holdings	16,992	12,845
Alternative investments	<u>3,362</u>	<u>3,633</u>
	<u>\$ 173,865</u>	<u>\$ 157,189</u>

Investments have been classified as operating and endowment investments in the consolidated statements of financial position as follows:

	2020	2019
	<u> </u>	<u> </u>
Operating investments	\$ 26,079	\$ 24,850
Endowment investments	<u>147,786</u>	<u>132,339</u>
	<u>\$ 173,865</u>	<u>\$ 157,189</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

Investments, excluding alternative investments, were recorded at fair value as of December 31, 2020 based on the following level of hierarchy:

	<u>Total</u>	<u>Reported at NAV</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate and commercial obligations	\$ 38,197	\$ -	\$ 38,197	\$ -	\$ -
U.S. Treasury securities and other government obligations	22,409	-	22,409	-	-
Corporate equity securities	22,402	-	22,402	-	-
Mutual funds	70,503	-	70,503	-	-
Money market holdings	16,992	-	16,992	-	-
Alternative investments	3,362	3,362	-	-	-
	<u>\$ 173,865</u>	<u>\$ 3,362</u>	<u>\$ 170,503</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in assets held by community foundation	277	-	-	-	277
	<u>\$ 174,142</u>	<u>\$ 3,362</u>	<u>\$ 170,503</u>	<u>\$ -</u>	<u>\$ 277</u>

Investments, excluding alternative investments, were recorded at fair value as of December 31, 2019 based on the following level of hierarchy:

	<u>Total</u>	<u>Reported at NAV</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate and commercial obligations	\$ 25,060	\$ -	\$ 25,060	\$ -	\$ -
U.S. Treasury securities and other government obligations	34,527	-	34,527	-	-
Corporate equity securities	35,650	-	35,650	-	-
Mutual funds	45,474	-	45,474	-	-
Money market holdings	12,845	-	12,845	-	-
Alternative investments	3,633	3,633	-	-	-
	<u>\$ 157,189</u>	<u>\$ 3,633</u>	<u>\$ 153,556</u>	<u>\$ -</u>	<u>\$ -</u>

The USO held no beneficial interest in assets held by community foundations as of December 31, 2019.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ -	\$ -
Contributions	237	-
Investment return, net	40	-
	<u>277</u>	<u>-</u>
	<u>\$ 277</u>	<u>\$ -</u>

The following table details certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2020 and 2019. These disclosures are required for all investments that are eligible to be valued using the practical expedient regardless of whether the practical expedient has been applied.

	<u>Fair Value at December 31, 2020</u>	<u>Fair Value at December 31, 2019</u>	<u>Unfunded Commitments</u>	<u>Expected Liquidation Term</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions at December 31, 2020</u>
Limited partnership	\$ 2,322	\$ 2,706	None	Not applicable	Upon liquidation	Not applicable
Bond fund	<u>1,040</u>	<u>927</u>	None	Not applicable	Weekly on Wednesday, except first week of the month, when it's the 1 st business day, upon 3 days' prior notice	None
	<u>\$ 3,362</u>	<u>\$ 3,633</u>				

NOTE E - FIXED ASSETS

At December 31, fixed assets consist of the following:

	<u>2020</u>	<u>2019</u>
Furniture, fixtures, and equipment	\$ 13,146	\$ 13,645
Leasehold improvements	24,820	21,772
Internally developed software	1,168	1,168
Land	296	-
	<u>39,430</u>	<u>36,585</u>
Less: accumulated depreciation and amortization	<u>(22,017)</u>	<u>(21,030)</u>
	<u>\$ 17,413</u>	<u>\$ 15,555</u>

For the years ending December 31, 2020 and 2019, depreciation and amortization expense totaled \$4,013 and \$3,302, respectively.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

NOTE F - LOANS PAYABLE

During the year ended December 31, 2020, the USO, Inc. acquired four chartered centers who received loans pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loans are uncollateralized and are fully guaranteed by the federal government. The loans mature in May 2022 and bear interest at a rate of 1% per annum. Under the program terms, the loan and accrued interest are expected to be forgiven and recognized as grant revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following the receipt of the loan. The USO expects to recognize a contribution at the time the loans are explicitly forgiven in a future fiscal year.

NOTE G - COMMITMENTS AND CONTINGENCIES

Operating Leases

The USO leases office space and equipment under various long-term lease agreements expiring 2021 through 2029. Lease incentives are amortized and recognized as expense over the term of the lease on a straight-line basis. Unamortized amounts are recorded as deferred rent in the accompanying consolidated statements of financial position.

Future minimum payments under operating leases with terms of one year or more are as follows:

Years Ending December 31,	
2021	\$ 2,197
2022	2,247
2023	2,233
2024	2,214
2025 and thereafter	<u>5,219</u>
	<u>\$ 14,110</u>

For the years ended December 31, 2020 and 2019, total rental expense under all operating leases was \$1,988 and \$1,707, respectively (excluding related in-kind support).

Other

The USO is subject to claims and suits arising in the ordinary course of its operations. In the opinion of management, the ultimate resolution of any outstanding legal proceedings will not have a material effect on the USO's financial position, change in net assets, or cash flows.

Risks and Uncertainties

Beginning around March 2020, the COVID-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

NOTE H - NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors or by the passage of time during the year ended December 31, as follows:

	2020	2019
Education fund	\$ 813	\$ 18
Military families and expeditionary programs	1,882	2,336
USO centers	8,359	5,257
Transition programs	2,875	4,608
Other programs	4,075	182
Passage of time	6,237	4,683
Appropriation of endowment earnings	14	53
	<u>\$ 24,255</u>	<u>\$ 17,137</u>

At December 31, net assets consisted of the following:

	2020	2019
Without donor restrictions		
Operating	\$ 69,312	\$ 62,536
Board designated endowment	81,841	73,559
Total without donor restrictions	<u>151,153</u>	<u>136,095</u>
With donor restrictions, subject to expenditure for specified purpose or passage of time		
Education fund	-	737
Military families and expeditionary programs	3,618	1,447
USO centers	7,428	9,393
Transition programs	923	1,345
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	9,532	8,712
Total with donor restrictions, subject to expenditure for specified purpose or passage of time	<u>21,501</u>	<u>21,634</u>
Endowments subject to USO endowment spending policy and appropriation:		
Spirit of Hope endowment	65,898	58,360
Other endowments	880	667
Promises to give, restricted to endowment	243	100
Total endowments	<u>67,021</u>	<u>59,127</u>
Beneficial interest in assets held by community foundation	277	-
Total net assets with donor restrictions	<u>88,799</u>	<u>80,761</u>
Total net assets	<u>\$ 239,952</u>	<u>\$ 216,856</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

NOTE I - ALLOCATION OF JOINT COSTS

The USO conducts activities that include appeals for contributions. These activities primarily include direct-response campaigns. The costs of conducting those joint activities were allocated as follows:

	2020	2019
Programs	\$ 12,295	\$ 10,995
Management and general	4,263	4,009
Fundraising	12,238	10,955
	<u>\$ 28,796</u>	<u>\$ 25,959</u>

NOTE J - CONTRIBUTED MATERIALS, FACILITIES AND SERVICES

A summary by category of in-kind support donated for the year ended December 31, is as follows:

	2020	2019
Celebrity entertainment	\$ 12,345	\$ 25,059
Center facilities	22,451	17,021
Public service announcements	18,562	45,192
Materials and other	14,347	11,733
	<u>\$ 67,705</u>	<u>\$ 99,005</u>

NOTE K - RETIREMENT PLAN

The USO maintains a 401(a) with a 401(k) component plan named the United Service Organizations Retirement Savings Plan (RSP). The RSP allows eligible participants to contribute both pre-tax and Roth contributions to the RSP, as well as, allows the USO to contribute both employer matching contributions and safe harbor non-elective contributions. Employer matching contributions vest 100 percent over a period of five years; whereas, safe harbor non-elective contributions vest 100 percent over a period of 2 years. Additionally, in 2020, the USO contributed a discretionary employer matching contribution equal to 100% of the employee's salary deferral contributions, up to a maximum of 5 percent of the employee's compensation.

The USO's policy is to fund retirement plan costs as accrued. Retirement plan expense was \$3,408 and \$2,842 for the years ended December 31, 2020 and 2019, respectively.

NOTE L - ENDOWMENT

The USO's endowment consists of the Spirit of Hope endowment and other individual funds established for a variety of purposes. The Spirit of Hope endowment includes both donor-restricted endowment funds and funds designated by the Board of Governors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

The District of Columbia Uniform Prudent Management of Institutional Funds Act (DC-UPMIFA) imposes guidelines on the management and investment of endowment funds. Management of the USO has interpreted DC-UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the USO classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by DC-UPMIFA.

Annually, the USO Foundation's Board of Governors approves an annual appropriation of the USO's Spirit of Hope endowment to cover administrative costs of the USO Foundation. In addition, during 2019, the USO adopted a spending policy establishing a spending rate of up to 2.5 percent on its other endowments. This policy allows the Board to adjust this spending rate or make the determination to not spend funds in any given year.

The USO has adopted an investment policy for the endowment fund. This investment policy is based on growing the endowment fund to provide financial stability for the USO in perpetuity with no short term plans for withdraws from the fund. The USO's ability to tolerate risk and volatility should be consistent with that of a conservative growth portfolio, with investments made in companies that demonstrate consistent growth over time. Asset allocations are developed in accordance with this long-term, conservative growth strategy.

The following illustrates endowment net asset composition by type of fund and the changes in endowment net assets for the year ended December 31:

2020	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	\$ 81,841	\$ -	\$ 81,841
Donor-restricted endowment:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	26,268	26,268
Accumulated net investment return	-	40,510	40,510
	\$ 81,841	\$ 66,778	\$ 148,619
2020	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 73,559	\$ 59,027	\$ 132,586
Investment income, net	7,485	7,665	15,150
Contributions	813	100	913
Appropriation of endowment net assets pursuant to spend-rate policy	(16)	(14)	(30)
Endowment net assets, end of year	\$ 81,841	\$ 66,778	\$ 148,619

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

2019	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	\$ 73,559	\$ -	\$ 73,559
Donor-restricted endowment:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	26,168	26,168
Accumulated net investment return	-	32,859	32,859
	<u>\$ 73,559</u>	<u>\$ 59,027</u>	<u>\$ 132,586</u>
2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 41,123	\$ 48,974	\$ 90,097
Investment income, net	8,398	9,986	18,384
Contributions	24,038	120	24,158
Appropriation of endowment net assets pursuant to spend-rate policy	-	(53)	(53)
Endowment net assets, end of year	<u>\$ 73,559</u>	<u>\$ 59,027</u>	<u>\$ 132,586</u>

NOTE M - ACQUISITION OF CHARTERED CENTERS

The USO oversees the operations and activities for chartered USO affiliates to facilitate strategic alignment, deliver on the overarching mission-wide strategic objectives, and to ensure coverage for all geographic service areas. These chartered USO affiliates are financially autonomous and are each governed by separate boards that are independent of the USO Board of Governors. During the year ended December 31, 2020, the USO executed merger agreements with four of these chartered USO affiliates accounted for as an acquisition. During the year ended December 31, 2019, the USO executed merger agreements with eight chartered USO affiliates accounted for as an acquisition.

As the USO is predominately supported by contributions and returns on investments and this is not expected to change as a result of this acquisition, the excess of the fair value of assets acquired over the fair value of liabilities assumed as a result of the acquisition has been recognized as a surplus in the consolidated statements of activities on the effective date of the acquisition as follows:

	2020	2019
Cash	\$ 3,597	\$ 5,811
Contributions receivable	528	2,763
Investments	237	6,578
Beneficial interest in assets held by community foundation	701	-
Fixed assets	1,085	4,272
Other assets (prepaid expenses, security deposit, etc.)	245	265
Liabilities assumed	<u>(826)</u>	<u>(3,824)</u>
Excess of assets acquired over liabilities assumed in acquisition of USO Chartered Centers	<u>\$ 5,567</u>	<u>\$ 15,865</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019
(in thousands of dollars)

As of December 31, 2020, the USO continues to oversee the operations and activities for six chartered USO affiliates that remain financially autonomous and are each governed by separate boards that are independent of the USO Board of Governors

NOTE N - SUBSEQUENT EVENTS

The USO executed a merger of agreement with USO of Northwest, a chartered USO affiliate, effective April 1, 2020. As the USO is predominantly supported by contributions and investments, and this is not expected to change as a result of this acquisition, this transaction will be accounted for as an acquisition in the USO's consolidated statements of activities as of the effective date of merger.

The USO evaluated its December 31, 2020 consolidated financial statements for subsequent events through, April 30, 2021, the date the consolidated financial statements were available to be issued and concluded that no other additional disclosures are required.